


**Monitoring Report:
Financial Planning / Budgeting (Policy 2.4)
Monitoring Period: October 2023 – September 2024**










Finance Committee Meeting Review Date: September 10, 2024

Board of Directors Meeting Review Date: September 19, 2024

INFORMATION TYPE
Monitoring
RECOMMENDED ACTION(S)
<p>That the Board review this monitoring report and consider accepting it as:</p> <p>(A) a reasonable interpretation for all policy items and that the evidence demonstrates compliance with the interpretations.</p> <p>(B) a reasonable interpretation for all policy items and that the evidence demonstrates compliance with the interpretations, except for the CEO’s stated non-compliance with item(s) x .x, which the Board acknowledges and accepts the proposed dates for compliance.</p> <p>(C) 1. For policy items x.x.x – there is evidence of compliance with a reasonable interpretation 2. For policy items x.x.x – the interpretation is not reasonable 3. For policy items x.x.x – the interpretation is reasonable, but the evidence does not demonstrate compliance 4. For policy items x.x.x – the Board acknowledges and accepts the CEO’s stated non-compliance and the proposed dates for compliance</p>
ISSUE SUMMARY
<p>TheRide’s Board of Directors establish policies that define what methods are unacceptable to use to achieve expected results, called Executive Limitations. This monitoring report provides the CEO’s interpretations of those policies, evidence of achievement, and an assertion on compliance with the Board’s written goals. As with other monitoring reports, the Board decides whether the interpretations are reasonable, and the evidence is convincing.</p> <p>Per Appendix A of the Board Policy Manual, this report was scheduled for monitoring in September and was submitted in September.</p> <p>I certify that the information is true and complete, and I request that the Board accept this as indicating an acceptable level of compliance.</p> <div style="display: flex; justify-content: space-between; margin-top: 20px;"> <div style="text-align: center;"> <p>CEO’s Signature</p>  </div> <div style="text-align: center;"> <p>Date</p> <p><u>8/26/2024</u></p> </div> </div>

BACKGROUND
Annual Board oversight of budget process via monitoring reports
PRIOR RELEVANT BOARD ACTIONS & POLICIES
<p>Monitoring Reports are a key Policy Governance tool to assess organizational/CEO performance in achieving Ends (1.0) within Executive Limitations (2.0). A Policy-Governance-consistent Monitoring Process is:</p> <ol style="list-style-type: none"> 1. CEO sends Monitoring Report to all board members 2. At Board meeting, board accepts Monitoring Report through majority vote (or if not acceptable, determines next steps)
IMPACTS OF RECOMMENDED ACTION(S)
<ul style="list-style-type: none"> • Budgetary/Fiscal: Current staff budget process continues as is • Governance: Compliance with monitoring report requirements
ALTERNATIVE OPTION(S)
N/A
ATTACHMENTS
<ol style="list-style-type: none"> 1. Monitoring report for Financial Planning / Budgeting (Policy 2.4) 2. FY 2025 Draft Operating and Capital Budget

Table of Contents

POLICY TITLE: FINANCIAL PLANNING / BUDGETING	Page #	Compliance
2.4 Financial planning for any fiscal year or the remaining part of any fiscal year shall not deviate from Board’s Ends priorities, risk fiscal jeopardy, or fail to be derived from a strategic multi-year plan. Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not cause, allow or fail to address budgeting that:	4	
2.4.1. Risks incurring those situations or conditions described as unacceptable in the Board policy “Financial Condition and Activities.”	5	
2.4.2 Fails to place business decisions in a comprehensive, strategic context that illustrates progress towards Ends and compliance with Executive Limitations.	6	
2.4.3 Omits credible projection of revenues and expenses, separation of capital and operational items, cash flow, and disclosure of planning assumptions.	8	
2.4.4 Is unclear about long-term funding needs and growth projections.	9	
2.4.5 Causes deficit spending.	11	
2.4.6 Does not provide for adequate reserves.	13	
2.4.7 Provides less for Board prerogatives during the year than is set forth in the Cost of Governance policy.	15	
2.4.8 Funds ongoing operations via debt or creates unfunded future obligations.	16	

 Fully Compliant
  Partially Compliant
  Non-Compliant

Preliminary CEO Interpretations and Evidence

POLICY 2.4

Financial planning for any fiscal year or the remaining part of any fiscal year shall not deviate from Board’s Ends priorities, risk fiscal jeopardy, or fail to be derived from a strategic multi-year plan.

Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not cause, allow or fail to address budgeting that:

Degree of Compliance: Compliant

Interpretation

Measure/Standards & Level of Achievement

Compliance with this policy will be demonstrated when there is compliance with all lower-level policies.

Rationale

This is reasonable because the board has fully interpreted this policy in lower-level policies as follows:

- Deviation from Board’s Ends priorities (2.4.2),
- Derived from strategic multi-year plan (2.4.2, 2.4.4, 2.4.7), and
- Risk fiscal jeopardy (2.4.1, 2.4.3, 2.4.5, 2.4.6, 2.4.7, 2.4.8).

Evidence

Source of Data: Compliance of lower-level policies

Date of Data Review: 8/29/2024 as verified by Chief Executive Officer

Data:

As demonstrated below, policies 2.4.1-2.4.8 are reported to be in compliance.

POLICY 2.4.1

Risks incurring those situations or conditions described as unacceptable in the Board policy “Financial Condition and Activities.”

Degree of Compliance: Compliant

Interpretation

I interpret that this policy to be about elements in a recommended annual budget that could impact compliance with policy 2.5 (Financial Conditions and Activities) *in the future*. The Budget does not impact many elements of policy 2.5 directly, for example having policies and procedures, which are duties of staff. These issues will be addressed in the monitoring report for 2.5.

Measure/Standards & Level of Achievement

Compliance with this policy will be demonstrated when:

- A. Recommendations pertaining to decisions the Board has reserved for itself (i.e., authorization of unbudgeted contracts over \$250,000, use of the Capital Reserve, adjustments to tax rates or fares, real estate transactions, or creation of debt) are clearly noted.
- B. The recommended budget includes sufficient resources to hire an independent auditor.

Rationale

This is reasonable because

- A. The Board has identified specific budget controls in policy 2.5. Ensuring these items are addressed in the budget maximizes compliance with 2.5.
- B. Policy 2.5.4 requires the CEO must not compromise the Board’s audit, so it is necessary to provide budgeted resources for an external auditor.

Evidence

Source of Data: FY 2025 Draft Operating and Capital Budget (the budget), and Corporate Business Plan FY2025 (the business plan)

Date of Data Review: 8/26/2024 as verified by the Deputy CEO, Finance and Administration

Data:

- A. The following decisions reserved for the Board under Policy 2.5 are addressed in the budget as follows:
 - a. 2.5.6 Budgeted Contracts – Contracts over \$250,000 are illustrated on page 50.
 - b. 2.5.7 Capital Reserve Funds – There is no use of capital reserve funds in the FY2025 Budget. Use of the capital reserve forecasted in future years is outlined in the 10-Year Capital Plan, Figure 21, on page 40. It is also illustrated on page 44 in Figure 26, Projected Capital Reserve Activity.

- c. 2.5.9 Tax Rates – Tax rate adjustments approved by the Board in August 2022 are impacting the budget. The impact of the approved millage on revenues is described under “Local Property Taxes” (page 34). There are no new recommended changes to Tax Rates requested to support the budget.
 - d. 2.5.10 Real Estate Transactions – The capital budget includes a budget for acquiring land for the Ypsilanti Transit Center (page 40). Approval of the budget allocates the financial resources to acquire the land but does not provide approval of the purchase. In accordance with Policy 2.5.10, approval to acquire land would need to be approved by the Board prior to purchase.
 - e. 2.5.11 Debt – As indicated in the capital plan (pages 39-40) there is no debt funding planned in the budget.
- B. Auditing Fees – As indicated in Figure 14: Contractual Services Summary (page 31), sufficient funding is provided for external auditing fees in the budget. Recently auditing contracts have cost about \$70K per year. We are including \$80K in the FY2025 budget.

POLICY 2.4.2
 Fails to place business decisions in a comprehensive, strategic context that illustrates progress towards Ends and compliance with Executive Limitations.

Degree of Compliance: Compliant

Interpretation

I interpret this policy to mean that each draft annual budget (and the expenditures therein) must be informed by a multi-year strategic plan that illustrates how the agency will align its resources to make progress toward making progress in achieving the Board’s expectations (i.e., Ends and Executive Limitations).

Measure/Standards & Level of Achievement

Compliance with this policy will be demonstrated when the CEO produces an annual Corporate Business Plan that together:

- A. Uses the Board policies to guide agency goals/outcomes. *All* efforts are aligned towards these outcomes.
- B. Provides a summation of the agency’s current situation sufficient to establish a common understanding of the plan’s starting point and key considerations that guide agency efforts to achieve Ends within set limitations.
- C. Staff, community and the Board participate to provide input on the activities before they are adopted in the budget for funding.

- D. Provides a multi-year framework for illustrating initiatives. Longer-term context can be provided, as necessary, in supplemental documents like a long-range plan.

Rationale

This interpretation and degree of achievement is convincing because

- A. Aligning agency activities to Board policies indicates a deliberate focus of operational matters (delegated to the CEO) to accomplish Board’s ends within set limitations.
- B. A summary of the agency’s current situation establishes a common understanding of the starting point, clarifies background, provides situational awareness, and focuses on key issues.
- C. Providing staff, board and the public the opportunity to review activities before they are funded ensures transparency of the organization’s work before they are finalized/funded.
- D. Multi-year timeframes provide context without under-representing lengthy projects whose costs are spread over time. Major anticipated business decisions are addressed, directly or indirectly, through the Business Plan and Budget documents. All expenditures are addressed in each annual budget.

Evidence

Source of Data: Corporate Business Plan FY2025 (the business plan), FY 2025 Draft Operating and Capital Budget (the budget), TheRide2045 (long-range plan)

Date of Data Review: 8/23/2024 as verified by Corporate Strategy & Performance Officer

Data:

- A. The Board’s Ends policies appear on page 25 of the Business Plan. All recommended initiatives are cross-referenced to illustrate which Board policy (Ends or Executive Limitation) they are intended to advance (pgs. 12-20).
- B. The Business Plan provides historical background on ridership trends (pgs. 4-6) in part to focus attention on this key output. It also provides SWOT (pgs. 27-28), PESTLE (pgs. 29-30) and GAP (p31) analyses.
- C. The Business Plan provided ways to provide input and feedback on the plan (pgs. 3 & 23), responded to questions and documented frequently asked questions (pgs. 33-34).
- D. The Business Plan provides a 21-year plan in Gantt chart format on page 9.

POLICY 2.4.3

Omits credible projection of revenues and expenses, separation of capital and operational items, cash flow, and disclosure of planning assumptions.

Degree of Compliance: Compliant

Interpretation

I interpret this policy to mean that the FY 2025 Budget will provide transparent estimates and defensible assumptions based on historical trends and future projections. And that there will be a clear separation of revenues and expenses, capital and operational items, and cashflows.

Measure/Standards & Level of Achievement

Compliance with this policy will be demonstrated when the annual draft budget includes

- A. All anticipated revenue estimates by source,
- B. All anticipated expense estimates by general category or project as appropriate,
- C. Operating budget is separate from the capital budget,
- D. Anticipated cash flow projections (annually) for the current year and the next five years based on operating and capital budget requirements,
- E. Any assumptions that significantly influence budget planning.

Rationale

This interpretation is reasonable as the policy unambiguously requires provision of those items.

A.-D. Having all anticipated revenues, expenses, and cashflow displayed in the budget is a reasonable level of achievement as it shows available financial resources and how resources are allocated to further the Board's Ends.

E. There are many assumptions that guide budget projections. Some are routine or based on best practices. Highlighting assumptions that result in significant budget changes from prior years e.g., anticipated expenses due to service expansion, allows the Board to focus on the strategic context of operational matters. Additionally, historical context and explanation of assumptions provides the opportunity for the Board to assess reasonableness of projections.

Evidence

Source of Data: FY 2025 Draft Operating and Capital Budget

Date of Data Review: 8/26/2024 as verified by the Deputy CEO, Finance and Administration

Data:

- A. Revenue Estimates – Page 38 provides estimates of 7-year operating expenses by category and page 40 provides 10-year capital expenses by project.
- B. Cost Estimates – Page 38 provides estimates of 7-year operating expenses by category with historical context and page 40 provides 10-year capital expenses by project.
- C. Operating and Capital budgets are separated (see pages 36 and 39)
- D. Cash Flow Projections – Page 43 provides cash balances for the current year in September and the next six years. Cash flow is based on operating and capital budget revenue and expense projections as presented in the budget.
- E. Assumptions – Pages 27 through 36 and 46 through 48 provide operating and capital budget assumptions, respectively.

The Budget is attached to this monitoring report for reference.

POLICY 2.4.4

Is unclear about long-term funding needs and growth projections.

Degree of Compliance: Compliant

Interpretation

Measure/Standards & Level of Achievement

Compliance with this policy will be demonstrated when the annual budget clearly outlines five-to-ten-year financial assumptions for:

- A. Maintaining operation of existing services,
- B. Maintaining assets (per Board policy and FTA requirements),
- C. Mitigating against foreseeable risk,
- D. Implementing expansion plans (i.e., TheRide2045, the long-range plan), and
- E. Changes in ridership (i.e., passenger demand).

Rationale

This is reasonable because it accounts for the main elements of funding needs i.e., maintaining existing services and equipment, risk, service expansion, and growing demand for services.

Evidence

Source of Data: FY 2025 Draft Operating and Capital Budget

Date of Data Review: 8/26/2024 as verified by the Deputy CEO, Finance and Administration

Data:

- A. Page 10 of the budget states that the budget includes operating full-service levels and funding for millage service expansions. Page 37 demonstrates that there is no reduction in funding for operations, and that the increased levels of funding for expanded services cover expenses through FY2029.
- B. Page 39 of the budget demonstrates that there is funding for maintaining assets through capital funding in the “State of Good Repair” section for the projection period (10 years).
- C. The projections included on pages 37-38 of the budgets include average annual inflationary increases of at least 3% per year. There are some exceptions, such as union salary and wage increases, which are based on the current bargaining unit contract in the first few years, and then 3% annually after expiration of the current contract. Additionally, some areas of the budget include additional inflationary adjustments based on historical trends that may be higher than 3%, such as different types of insurance costs.
- D. Expansion plans are included in the budget as follows:
 - a. Millage services to be implemented in FY2025 and through the projection period are described in the operating budget on pages 8 through 10. Increased funding to support initiatives is demonstrated in the projections on pages 37-38. Operating costs supporting the longer-term service changes, such as Bus Rapid Transit (BRT) are beyond the current millage cycle and are not included in the projections as funding has not been approved and will not be implemented until funding becomes available.
 - b. Longer term expansion plans are described in the capital plan on page 12. Increased funding to support capital initiatives are provided in the capital budget and projections on pages 39-41.
- E. Changes in ridership are described in the budget on pages 24 through 26.

POLICY 2.4.5

Causes deficit spending.

Degree of Compliance: Compliant

Interpretation

Measure/Standards & Level of Achievement

Compliance with this policy will be demonstrated when the draft annual budget demonstrates that:

- A. Projected costs do not exceed reasonable forecasts of revenues,
- B. Any unsecured revenue sources, such as aspirational or competitive capital grants, are clearly identified,
- C. Operating and Capital reserves are maintained at appropriate levels, and
- D. Maintenance is not deferred.

Rationale

This is reasonable because,

- A. While multi-year forecasts are included in the budget for context, the Board only approves one year of budget at a time. Projections of future deficits do not cause immediate deficit spending. A balanced budget is also in compliance with State law.
- B. Forecasting future deficits may be necessary to represent the agency's circumstances honestly and transparently.
- C. Stipulating the reserves must be maintained eliminates the option of drawing down those reserves to temporarily increase spending beyond what revenues could support longer-term.
- D. Requiring that maintenance be conducted eliminates the option of underfunding these important activities to temporarily increase spending beyond what revenues could support longer-term.

Evidence

Source of Data: FY 2025 Draft Operating and Capital Budget

Date of Data Review: 8/26/2024 as verified by the Deputy CEO, Finance and Administration

Data:

- A. On page 36 of the budget, Figure 17 demonstrates that the FY2025 Operating Budget is balanced. On page 39 of the budget, Figure 20 demonstrates that the FY2025 Capital Budget is balanced.
- B. On page 40 of the budget, Figure 21 shows anticipated funding sources for aspirational projects, including some projects that are unfunded later in the projection period.
- C. On pages 43 through 44, descriptions of required operating and planned capital reserves are provided, along with multi-year projections demonstrating reserve requirements are met through the projection period. Additional compliance with operating reserve requirements is described on pages 19 through 22.
- D. Page 31 of the budget explanations of additional funding for maintenance are described under fuel, materials and supplies expenses and contractual services in the operating budget. Also, fleet and facilities maintenance staff are fully funded in the operating budget, including additional staff needed to support additional service hours due to the millage services. As described in Figure 21 on page 40, the capital plan also includes "State of Good Repair" funding for equipment and existing facilities. All operating costs are projected to be covered through FY2029 due to the approved millage. Capital items are fully funded through FY2029 as well, currently with the use of the Local Capital Reserve beginning in FY2027.

POLICY 2.4.6

Does not provide for adequate reserves.

Degree of Compliance: Compliant

Interpretation

Measure/Standards & Level of Achievement

Compliance with this policy will be demonstrated when the draft annual budget provides for:

- A. An operating reserve with funding equivalent to at least 2.0 months of operating costs.
- B. A Worker's Compensation Insurance Reserve with at least \$500,000 is available to pay for claims costs beyond what is anticipated in the budget in any given fiscal year.
- C. A Capital Reserve (of whatever amount is available) intended to help pay for the local match in competitive federal grant applications, or for other capital expenses.

Rationale

This is reasonable because:

- A. An **operating reserve** is prudent because it provides an easily accessible amount of funding to ensure agency operations do not have to shut down in the event normal funding mechanisms were temporarily interrupted. Unpredictable circumstances beyond the agency's control such as cyberattacks, federal government shutdowns or paperwork errors can disrupt normal cash flow and impact paychecks and fuel purchases. A reserve provides an emergency buffer against such interruptions.

The Government Finance Officers Association (GFOA) best practice recommends, *at a minimum*, that governments maintain at least two (2) months of regular operating expenditures in reserve. Several factors (including a structural deficit) contributed to the initial position that AAATA should maintain operating reserves of 2.5 months for many years. However, with the August 2022 millage and prudent use of pandemic relief funds, AAATA has gained financial stability by eliminating the structural deficit and establishing adequate reserves. Given the current level of fund balance and other reserves, the CEO and CFO feel that a less conservative stance is warranted and is aligning the operating reserve target with best practices at 2.0 months beginning in FY2025.

- B. The **Worker's Compensation Insurance Reserve** is an important part of the agency's approach to being self-insured, which is more cost-effective than

paying high insurance premiums. The level of \$500,000 has been historically adequate.

- C. A **capital reserve** is useful to sequester one-time surplus funds to help provide the local match for competitive federal grants. Presently, the agency has a board-approved long-range plan with numerous capital projects. Several grants will be needed, making a capital reserve a prudent tool.

The adequacy of the amount of funding in the capital reserve is entirely dependent on available resources. Saving for future growth is the last priority after maintaining existing assets and services. Presently, the agency does not have a permanent funding source for the capital reserve.

There are no other reserves.

Evidence

Source of Data: FY 2025 Draft Operating and Capital Budget

Date of Data Review: 8/26/2024 as verified by the Deputy CEO, Finance and Administration

Data:

- A. Operating Reserves – As indicated on page 44, Figure 25 illustrates the Operating Reserve Balance will meet the reserve target through the projection period.
- B. Worker’s Compensation Insurance Reserve – As described on page 21, the reserve is fully funded. There is no additional funding needed as part of the budget.
- C. Capital Reserve – As illustrated in Figure 26 on page 44 of the budget, there is no anticipated contribution to the Capital Reserve in FY2025

POLICY 2.4.7

Provides less for Board prerogatives during the year than is set forth in the Cost of Governance policy.

Degree of Compliance: Compliant

Interpretation

Measure/Standards & Level of Achievement

Compliance with this policy will be demonstrated when the draft annual budget incorporates a budget for Board activities. This board budget is reviewed by the Governance Committee prior to budget adoption.

Rationale

This is reasonable because cost of governance is one of the Governance Committee’s primary responsibilities per policy 3.7.1 and policy 3.8.3 specifically requires inclusion of the board budget in the overall budget each year.

Evidence

Source of Data: FY 2025 Draft Operating and Capital Budget

Date of Data Review: 8/26/2024 as verified by the Deputy CEO, Finance and Administration

Data:

Cost of Governance is addressed on page 33 of the budget and notes that \$50,000 is allocated for Board activities. The details of the board budget were reviewed by the Governance Committee as documented in committee meeting minutes for August 22, 2024.

POLICY 2.4.8

Funds ongoing operations via debt or creates unfunded future obligations.

Degree of Compliance: Compliant

Interpretation

I interpret this policy to mean that the budget presented will not jeopardize the agency’s future. Further I interpret it to mean that the CEO can recommend that the Board approve debt as long as there is a revenue source to pay for it, for example revenue bonds paid for by a supplemental millage.

Measure/Standards & Level of Achievement

Compliance with this policy will be demonstrated when:

- A. The draft annual budget does not require the Board to approve debt to maintain existing levels of public services or assets for the upcoming year,
- B. Any one-time revenues are not used to create permanent ongoing expenses, and
- C. The draft annual budget does not forecast operating deficits.

Rationale

This is reasonable because:

- A. The draft annual budget covers both operating and capital expenses, and the absence of a request to authorize debt is evidence of spending discipline,
- B. Creating ongoing expenses with temporary funding would create a future obligation, and
- C. The credible projections required in earlier policies illustrate the future implications of immediate spending decisions.

Evidence

Source of Data: FY 2025 Draft Operating and Capital Budget, [FY2023 audited financial statements](#)

Date of Data Review: 8/26/2024 as verified by the Deputy CEO, Finance and Administration

Data:

- A. Debt – As indicated on the Statement of Net Position of the [FY2023 audited financial statements](#), under Liabilities, AAATA has no debt.
- B. One-Time Revenues – As indicated on page 37 of the budget, the CEO has not created new obligations for AAATA that cannot be funded with reasonably foreseeable revenues. All increased expenses related to service expansions are funded with the August 2022 millage beginning in Summer 2024.
- C. Operating Deficits – As indicated on page 36 of the budget, there is no projected deficit in FY2025.

Policy Trendlines

Policies	FY 22	FY 23	FY 24
2.4	3	3	3
2.4.1	3	3	3
2.4.2	3	3	3
2.4.3	3	3	3
2.4.4	3	3	3
2.4.5	3	3	3
2.4.6	3	3	3
2.4.7	3	3	3
2.4.8	3	3	3

LEGEND	
	Policy is not compliant
	Policy is partially compliant
	Policy is compliant

Guidance on Determining “Reasonableness” of CEO Interpretations

Are the interpretations reasonable?
 An interpretation is reasonable if the following are provided,
 1. a measure or standard,
 2. a defensible rationale for the measure or standard,
 3. a level of achievement necessary to achieve compliance and
 4. a rationale for the level of achievement.

Is evidence verifiable?
 Evidence is verifiable if there is
 1. actual measurement/data,
 2. the source of data and
 3. the date when data was collected is provided.

CEO Notes:

The flow of the monitoring report may make more sense if policies 2.4.1 and 2.4.7 are moved to the end of 2.4. They are very specific about budget content and disrupt the strategic narrative of the other policies.

Board's Conclusion on Monitoring Report

Board's conclusion after monitoring the report.

Following the Board's review and discussion with the CEO, the Board finds that the CEO:

(A) a reasonable interpretation for all policy items and that the evidence demonstrates compliance with the interpretations.

Board Notes: (If Applicable)